

**MINUTES OF MARCH 14, 2013 RETIREMENT BOARD  
CITY OF ALEXANDRIA  
FIREFIGHTERS AND POLICE OFFICERS PENSION PLAN  
INTERIM MEETING**

**PRESENT**

<u>Members</u>	<u>Others</u>
Patrick Evans <sup>2,3</sup> (Fire)	Steven Bland, Retirement Administrator
Tom Gates, Chairman (Management)	Barry Bryant, Dahab Associates (telephonic)
Mark Jinks (Management)	Bryan Capelli, Retirement Specialist
Shirl Mammarella (Police, Alternate)	Shane Cochran, Supplemental Retirement Board
Ed Milner <sup>1, 2, 3</sup> (Police Representative)	Kadira Coley, Retirement Specialist
Rick Muse (Fire, Alternate)	Brenda D'Sylva, Supplemental Retirement Board
Jean Niebauer (Management, Alternate)	Bill Eger, Supplemental Retirement Board
Morgan Routt <sup>1,5</sup> (Management)	Robert Gilmore, Supplemental Retirement Board
Laura Triggs <sup>1,4,5</sup> (Management)	Arthur Lynch, Retirement Specialist
	Nancy McFadden, Supplemental Retirement Board
	Marietta Robinson, Supplemental Retirement Board

Absent: Al Tierney, Michael Cross

<sup>1</sup> Adjustment Mechanism

<sup>2</sup> PLOP/DROP Committee

<sup>3</sup> Purchase of Service Credit Committee

<sup>4</sup> Technical Corrections Committee

<sup>5</sup> Training Opportunities Committee

<sup>6</sup> Vendor & Service Provider

**Note: This meeting was a joint meeting of the Boards for the Supplemental Retirement Plan and the Firefighters and Police Officers Pension Plan. The discussions reported in these minutes include comments from members of both Boards. All discussions are of value to each Board, even if the following motion did not apply to one Board. However, the motions noted in these minutes only relate to the Firefighters and Police Officers Pension Plan Board.**

**CALL TO ORDER**

The meeting was called to order at 8:33 AM on March 14, 2013.

**APPROVAL OF MINUTES**

There was a motion by Mr. Jinks to:

Approve the February 14, 2013 minutes.
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Ms. Triggs seconded the motion.

The motion was unanimously approved 5 – 0.

## **ADMINISTRATOR’S REPORT**

Staff began the administrator’s report with a highlight that month-end assets had reached an all-time high. Assets do not require rebalancing, but that the recent gains had been concentrated in domestic equities. If markets continued, rebalancing would be required soon.

Staff recommended the two motions on page 28 of the board packet.

There was a motion by Ms. Mammarella:

1. The Fixed Income Allocation may include cash.
2. Cash will normally be kept to a minimum.
3. Cash will be reported in the monthly investment rebalancing report.
4. Cash may be raised in anticipation of upcoming cash needs.
5. The ad hoc Policies & Procedures workgroup should review the Investment Policy Statement’s references to cash levels and report to the Board any recommended changes.

Ms. Triggs seconded the motion.

## **DISCUSSION:**

This clarifies that within limitations, holding some cash is acceptable.

The motion Passed (5 – 0).

Staff discussed the new monthly Real Estate Cash Flow Report. It follows the format of the timber and private equity cash flow reports. Until recently all distributions were reinvested. Cash flows to the plan began in fourth quarter 2012.

## **EDUCATION: SEMINARS, CONFERENCES, AND TRAINING**

Ms. Mamarella made a motion that:

The Firefighters and Police Officers Pension Plan provide standing instructions to fund 50% of the cost to send staff to the semi-annual AMRSVA meetings from the pension component and 5% from the disability component.

Mr. Routt seconded the motion.

## DISCUSSION:

- 1) The registration costs have been less than \$200 for the two day meetings and \$300 for the three day meetings.
- 2) Traditionally, we have split investment based expenses in proportion to plan assets, and administrative based expenses closer to 50/50. The AMRSVA conferences support both investment and administrative education. Therefore, I recommend the expense split be a melding of the two:

50%	Fire & Police Pension
5%	Fire & Police Disability
40%	Supplemental Retirement Plan
5%	Post-Employment Benefit Trust

The motion passed unanimously (5-0).

## FOLLOW-UP ITEMS

Staff said it had made steady progress on the follow up items. There was an expectation that responders to Dahab's timber RFP will attend the April 11<sup>th</sup> meeting.

Ms. Niebauer and Mr. Milner arrived at 8:48 AM. Mr. Bryant was connected via telephone at 8:50 AM. Mr. Evans arrived at 8:55 AM.

## OLD BUSINESS

### POLICY STATEMENT ON LIQUIDITY

Staff discussed handout 3(a), Liquidity – the Big Picture (page 42). The key points are:

- Illiquid investments tend to have higher return than liquid investments
- Illiquid investments often provide increased diversification to a portfolio because of low correlations to domestic equities.
- Illiquid assets tie up money for long periods of time.
- Illiquid assets tie up money for indeterminate periods of time.
- There are a number of ways a portfolio may address illiquidity.

Handout 3 (a) Exhibit 2 (pages 43-44) is from Dahab Associates' asset allocation modeling programs. Page 1 is the original. Staff reformatted it into page 2 to enhance readability and focus on a subset of the document. This handout verifies the bullet points above.

Handout 3(a) Exhibit 3 (page 45) displays the average illiquid assets in statewide pension plans from 2001 through 2011. It currently is above 20%. It has increased significantly through this period.

Staff said that the extent of illiquidity varies enormously. For example, timber might lock up funds for ten years and real estate for less than a year. Handout 3(a) Exhibit 3.1 (page 46) is an email documenting the withdrawal limitations of PRISA.

Handout 3(a) Exhibit 4 is an excerpt of the plan's Investment Policy Statement. The statement was considered too brief and should be expanded.

Handout 3(a) Exhibit 5 is staff's Liquidity/Illiquidity Draft Policy Guidelines and Examples. The idea is to provide a checklist of considerations for review while considering an incremental allocation to an illiquid asset class.

A few of the points mentioned were:

- The degree of illiquidity varies substantially from asset to asset.
- The quality of projected cash flows is dependent upon the veracity of the plan sponsor's funding history. In this case, the City has a history of funding in full, so projections based on employer contributions are well-founded.
- Substitutes may or may not be available, and may or may not be acceptable. For example, REITS are publicly traded securities that own real estate. They are liquid. However, they may trade more like stocks than direct real estate.
- The timing of cash flows may be concentrated or rather disbursed.
- There are a number of approaches for dealing with illiquidity.

A motion from a previous Board meeting called for no action on farmland until there was a liquidity policy statement.

Ms. Mammarella made a motion to:

Accept the Liquidity/Illiquidity policy statement and proceed with the Farmland contract.
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Ms. Triggs seconded the motion.

#### DISCUSSION:

Mr. Jinks suggested separating the two topics of a policy statement on liquidity and farmland action into two motions. He also asked what other jurisdictions do in the way of a liquidity policy statement.

Mr. Bryant suggested a liquidity Policy Statement is good in that it will protect the board if something goes wrong. He said farmland typically returns 3% - 5% annually. The trouble foundations and endowments got into in 2009 was from their allocations to illiquid assets that generally were twice our plans' allocation to illiquid assets.

Ms. Mammarella withdrew her motion.

Mr. Gates asked if the discussion on illiquidity was sufficient to move forward on farmland.

Mr. Milner made a motion:

Continue with the commitment to farmland. Staff or Dahab Associates should notify the Board if there is a substantial change in investment strategy or they extend the June 2013 closing date. The allocation should be 94% Pension Component and 6% Disability Component.
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Ms. Mammarella seconded the motion.

**DISCUSSION:**

Staff suggested considering alternatives with more international exposure and referenced page 53 in the handouts that called for lowering the commitment from \$5 million to \$3 million.

The motion passed (7 – 0) with Mr. Jinks abstaining.

**PRIVATE EQUITY**

Hamilton Lane provided handout 3(b) Exhibit 1 (pages 54 – 63). It is a projection of cash flows for both primary and secondary private equity. Both illustrate the existing partnerships as well as ongoing commitments every three years. Exhibit 2 (page 64) illustrates the projected weighting of Primary Fund VIII as well as the option to provide added concentration to Credit/Distressed Debt and Emerging Markets.

Ms. Niebauer made a motion:

Commit \$5 million to Hamilton Lane's Primary Fund VIII subject to legal review of the contract by the City Attorney. The allocation should be 94% Pension Component and 6% Disability Component.

Ms. Mammarella seconded the motion.

**DISCUSSION:**

The \$5 million is to be committed as follows:

- \$4,500,000 to the core product,
- \$ 250,000 to the Credit/Distressed Debt strategy, and
- \$ 250,000 to the Emerging Market strategy.

The motion passed (8 – 0).

**ENHANCED INDEXING**

Staff introduced enhanced indexing saying that the Supplemental Retirement Plan utilized this strategy in its small cap mandate. Also, while the board had education on a variety of asset classes, it had not much education on the many strategies and methods that an investment manager may use within an asset classes.

Handout 3(c) (pages 65-69) provided a schematic on enhanced indexation. Futures are used to provide market exposure. The futures might be backed by risk free T-Bills, but in enhanced indexation they are backed by another fixed income product with higher return expectations.

**NEW BUSINESS**

There was no new business.

## **TOPICS FOR FUTURE MEETINGS**

Staff suggested the manager presentation May 9<sup>th</sup> be PIMCO. They would speak to on their total return fund and provide education on some fixed income topics.

Handout 5(b) is a draft agenda for the June 13, 2013 Board Retreat. Staff asks trustees to provide feedback on desired topics, or future projects that might benefit from educational topics. If trustees have suggestions for board education they should please forward them to staff and/or the Chairman.

## **ADJOURNMENT**

The joint meeting with the Supplemental Board ended at 10:55 AM.

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The meeting recessed at 10:55 AM. The meeting resumed at 11:05 AM.

## **COMMITTEE REPORTS**

### **ADJUSTMENT MECHANISM COMMITTEE**

Ms. Triggs reported on the efforts of the Adjustment Mechanism Committee. The City Manager has proposed the 2% contribution rate increase. The Plan requires a 60-day notice to plan participants. The notices will be sent out in the next week.

Meetings are being held with employee association leaders to discuss possible alternatives.

Ms. Mammarella made a motion:

Withdraw the Adjustment Mechanism Resolution that was approved at the last Board Meeting.

Mr. Milner seconded the motion.

The motion failed (6 – 2)

Shirl Mammarella	Aye
Ed Milner	Aye
Patrick Evans	Opposed
Tom Gates	Opposed
Mark Jinks	Opposed
Rick Muse	Opposed
Morgan Routt	Opposed
Laura Triggs	Opposed

## **OLD BUSINESS**

### **ICMA-RC**

Staff provided an update on the ICMA-RC contract. Staff noted that some of the expense ratio had changed since the original proposed platform. The details are shown in handout 7(a) (pages 71-72). It was also noted that one fund (Foreign EAFE) is still under review and the Foreign REITs fund had been replaced because ICMA-RC could not administer the original selection.

Mr. Milner asked for an update on moving the benefit administration to in-house administration. He stated that some members are questioning who will review Staff's calculations as Staff currently reviews the calculations done by Prudential.

Ms. Triggs clarified that the in-house administration cannot move forward until the ERP system goes live. Staff will follow up on the process for calculation and review as the process moves forward.

## **NEXT MEETINGS**

Thursday April 11, 8:30 AM, Sister Cities 1101, Interim meeting – joint meeting

Thursday - May 9 8:30 AM Sister Cities 1101, Due Diligence – joint meeting

Thursday - June 13 8:30 AM, Sister Cities 1101, Board retreat – all day, joint meeting

Sunday – Monday, October 20 – 21, Association of Municipal Retirement Systems of Virginia (AMRS-VA), Alexandria 4641 Kenmore Ave Alexandria, VA 22304, Sunday 1:00 PM until Monday noon.

## **ADJOURNMENT**

Mr. Milner made a motion to:

Adjourn the meeting of the Firefighters and Police Officers Pension Board.
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Ms. Triggs seconded the motion.

The meeting adjourned at 11:30 AM.

## **HANDOUTS**

Distributed to Board members

1. Agenda
2. Minutes of Prior Meeting [1(a)]
3. Administrator's Report Cover Memo [2(a)]
4. Monthly Investment & Rebalancing Report [2(a)(i)]
5. Recommended Motions [2(a)(i)(1)] REVISED (now includes F&P)
6. Cash Flow Report [2(a)(iii)]
7. Private Equity Report Cash Flows [2(a)(iv)]
8. Real Estate Report Cash Flows [2(a)(v)]
9. Administrator's Follow-Up Items Report [2(b)(ii)]

10. Liquidity – The Big Picture [3(a)-Exhibit 1] REVISED
11. Asset Allocation Assumption (Dahab) [3(a)-Exhibit 2]
12. NASRA – Asset Allocation Survey [3(a)-Exhibit 3]
13. Real Estate & Liquidity [3(a)-Exhibit 3.1] NEW EXHIBIT
14. Investment Policy Statement on Liquidity [3(a)-Exhibit 4]
15. Liquidity/Illiquidity Draft Policy Guidelines & Examples [3(a)-Exhibit 5]
16. Hamilton Lane – Horizon Model Analysis [3(b)]
17. Hamilton Lane Primary Fund VIII Allocations [3(b)-Exhibit 2] NEW EXHIBIT
18. Future Markets [3(d)]
19. June Board Retreat DRAFT Agenda [5(b)]
20. Proposed DC Platform